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DEPARTMENT OF STATE

EXCISE

Memorandum of Conversation

DEPARTMENT OF STATE A/CDC MR

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PORTIONS DENIED AS INDICATED

DATE: October 13, 1970

SUBJECT: Future of International Oil Companies in the Wake of Libyan Settlement

PARTICIPANTS: [redacted] B4
Philip H. Trezise, Assistant Secretary for Economic Affairs
James Akins, Director, FSE

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E	E/ORF/FSE (3)	

When the appointment was set up [redacted] said he wanted only to meet Secretary Trezise, that he had nothing serious to talk about. He then spent the entire call describing the "disastrous" oil company settlement in Libya and the "dead wrong" position of the State Department in not urging the American companies to resist the Libyan demands. [redacted] thought that the worst aspect of the train of Libyan events was that the principle of sanctity of contract had been destroyed. From now on, he said, any country can tear up its agreements and impose new conditions on foreign companies operating in their territories.

[redacted] said there was no doubt that the other producers of the Middle East would demand exactly the same settlement as was given to Libya, i.e. a net increased payment of 30¢ a barrel; that as soon as they got this, Libya would again demand a new "transportation differential", and the spiral upwards would know no limit. [redacted] said the Shah had already sent an "ultimatum" to the Consortium which was so insulting that it embarrassed the Iranian officials who were forced to present it to the oil company officials. The Shah had even demanded a reply within one week but extended this to four weeks only after great effort on his [redacted] part.

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[redacted] said that he had tried to persuade the Shah not to be precipitous in demands on the Consortium, that threats to take Consortium property if demands were not met could only affect Iran's credit status in Europe, and that all Iran needed to do was wait until the Arabs across the Gulf acted irrationally, and got their pound of flesh. Iran would then automatically get the same benefits and all feelings would be friendly. Unfortunately, there is no reason to believe that the Shah would accept this advice. B4

[redacted] estimates of stock draw-downs in Europe of 18 days if the Libyan majors went out and an additional 12 days should the Iraq Petroleum Company line follow Libya, were precisely the same as those calculated by the State Department. But he reached the opposite conclusion about Europe's reaction. He thought if the US and UK governments had explained adequately to the Europeans what was at stake, they would have preferred drawing down stocks this winter rather than risk spiralling energy costs in the future. [redacted] thought that the United States would also soon have to face increased costs of energy as Venezuela will follow suit and all of American oil imports will be more expensive. B4 B4

Mr. Trezise and Mr. Akins thought that [redacted] had made two miscalculations: 1) his conviction that Europe would have adopted, with equanimity, a draw-down in stocks during the winter of half of its effective reserves particularly when there was no prospect of rebuilding them and 2) the United States and British governments could with words have calmed the Europeans, in face of their dwindling stocks. If the companies could have guaranteed the Europeans that there would have been no further price increases pending settlement of the Libyan situation, this might have been a more credible position for the USG to have taken, but as the companies in fact had said the contrary, that prices would have gone up in any case, [redacted] B4 B1

As for [redacted] belief that the companies would face in the Persian Gulf demands for precisely the same increases as were given in Libya, we told him we had seen no indications from the Arabs, at least, that they planned to demand a 30¢/bbl. net increase; even the Shah it seemed had asked for only an additional 16¢/bbl. While it was likely that there would be some increase in prices in the Persian Gulf, we would hope that it could be kept small. [redacted] B4

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[redacted] said he was pleased with our "optimism" but feared that we were wrong. He could see only a black future for the international oil companies. He said he had recognized that this development was inevitable eventually, certainly by the end of the decade, but he was surprised that it had come so soon. B4

[redacted] thought that it was imperative that the US and the UK governments and at least some oil company officials get together immediately to discuss the future of the international oil companies, what should be the position of the companies vis-a-vis the producing countries, and what should be the attitude of the US and the UK governments toward the companies and toward other producing and consuming countries. Mr. Trezise agreed that this would indeed be useful. B4

[redacted] did not admit any validity to Libya's case. He did not think that the Libyans had any justification in demanding higher payments than the companies had been willing to consider; but even if they had, they had no right to impose conditions on the companies. B4

[redacted] B1

[redacted] According to [redacted] the independent oil companies, notably Occidental and Oasis, were not only solely responsible for the increased production in Libya, which gave Libya its strangle hold over Europe, but [redacted] created the current disastrous situation by yielding to Libyan pressure for higher prices and taxes. B4

When asked if the oil companies should not diversify outside the Arab world he replied only that this was impossible as the Arabs had two-thirds of the world's petroleum reserves. His main response to this point was that governments (i.e. the US and the UK and possibly some Europeans) must take action to insure 1) that the Arabs not be turned into enemies, 2) that the oil remain in friendly hands and (again) 3) that this oil always be available to consumers on "fair" terms.

Clearance: E - Mr. Trezise

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